Michigan Education Trust

2006-2007 Annual Report for Contract Plan D

This report is available at **www.SETwithMET.com**.
To have a copy mailed to you, call
1-800-MET-4-KID.

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

May 2008

Dear MET Participants:

We are pleased to present the Fiscal Year 2006-07 Annual Report for the Michigan Education Trust (MET) program. By law, an actuarial evaluation must be performed annually to determine MET's ability to pay future benefits. The actuarial report prepared by PricewaterhouseCoopers L.L.P. for contracts purchased after 1995 (referred to in this Annual Report as Plan D contracts) as of September 30, 2007, is available on-line at **www.SETwithMET.com.**

The MET Board of Directors also conducts a quarterly review of MET's financial status. The tuition increase assumptions, investment rate of return assumptions, and the investment portfolio are adjusted as necessary to assure continued soundness of the program.

On behalf of the MET Board of Directors, we thank you for participating in the MET program and encouraging your beneficiaries to pursue postsecondary education. *If you have not yet purchased full four-year contracts, we encourage you to consider additional purchases this year. The 2008 enrollment period is currently open and ends August 31, 2008.* Please feel free to call the MET office with any questions or concerns you may have at (800) MET-4-KID (638-4543) or (517) 335-4767 in the greater Lansing area. You may also e-mail us at **TreasMET@michigan.gov**.

Sincerely,

Robert J. Kleine
MET Chairman
State Treasurer

Robin R. Lott
Executive Director
Michigan Education Trust

P.O. BOX 30198 • LANSING, MICHIGAN 48909
www.michigan.gov/treasury • (517) 335-4767 or (800) MET-4-KID

MET BOARD AND LEADERSHIP

A nine-member Board of Directors administers the Michigan Education Trust (MET) program. Board members are responsible for policy development, investment initiatives, program development and implementations. The Governor, on advice and consent of the Senate, appoints MET Board members, who represent expertise in business, academics or finance. The State Treasurer, Robert J. Kleine, serves as Chairperson. Robin Lott, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations.

MICHIGAN EDUCATION TRUST
BOARD OF DIRECTORS

MR. ROBERT J. KLEINE
State Treasurer
MET Chair

MR. ROBERT A. BOWMAN
MET President
President & CEO, MLB Advanced Media, L.P.

MR. THOMAS P. SULLIVAN
MET Vice President
President, Cleary College

DR. MICHAEL RAO
President, Central Michigan University

DR. ALBERT L. LORENZO
President, Macomb Community College

MR. JOHN M. HALE, III
Independent Financial Consultant

DR. MARLENE E. DAVIS
CEO Leadership Strategies L.L.C.

MR. GREGORY CLEVENGER
Teacher, Rochester Adams High School

VACANT
Representing the General Public

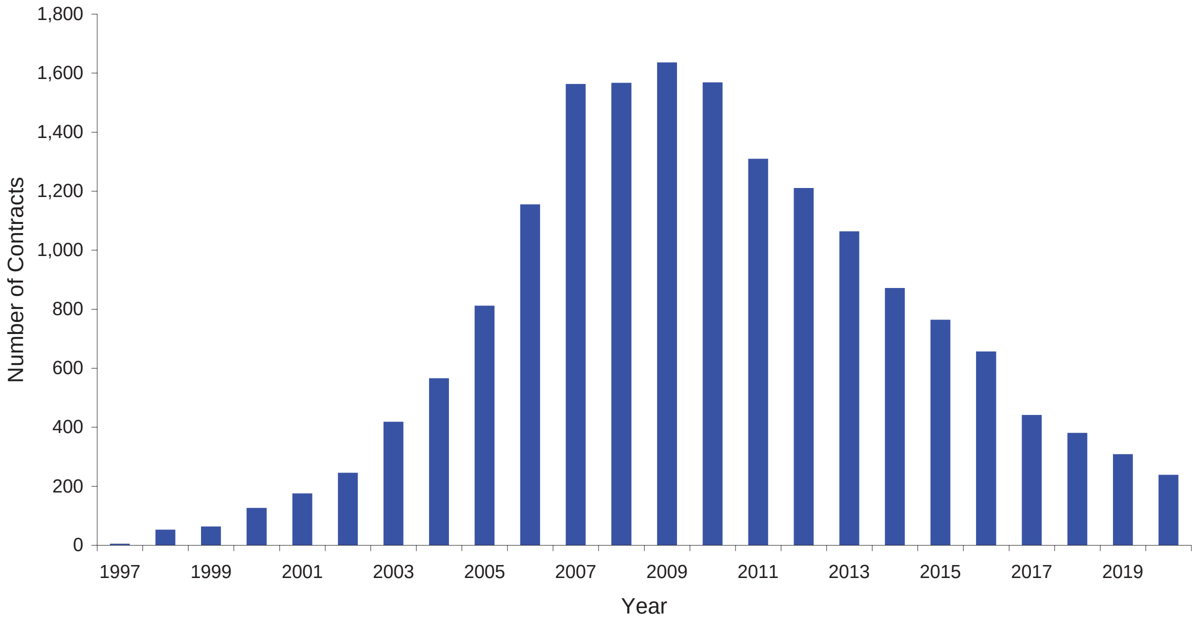
THE MET PROGRAM

MET was established pursuant to Public Act 316 of 1986 as Michigan's guaranteed tuition program. MET is a "qualified tuition program" under Section 529 of the Internal Revenue Code which provides tax exemption for the trust and tax exemption of earnings for contract participants who use MET funds to pay for qualified higher education expenses.

MET allows parents, grandparents, businesses, and others to make contributions at the current rate of tuition for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established similar prepaid or college savings programs.

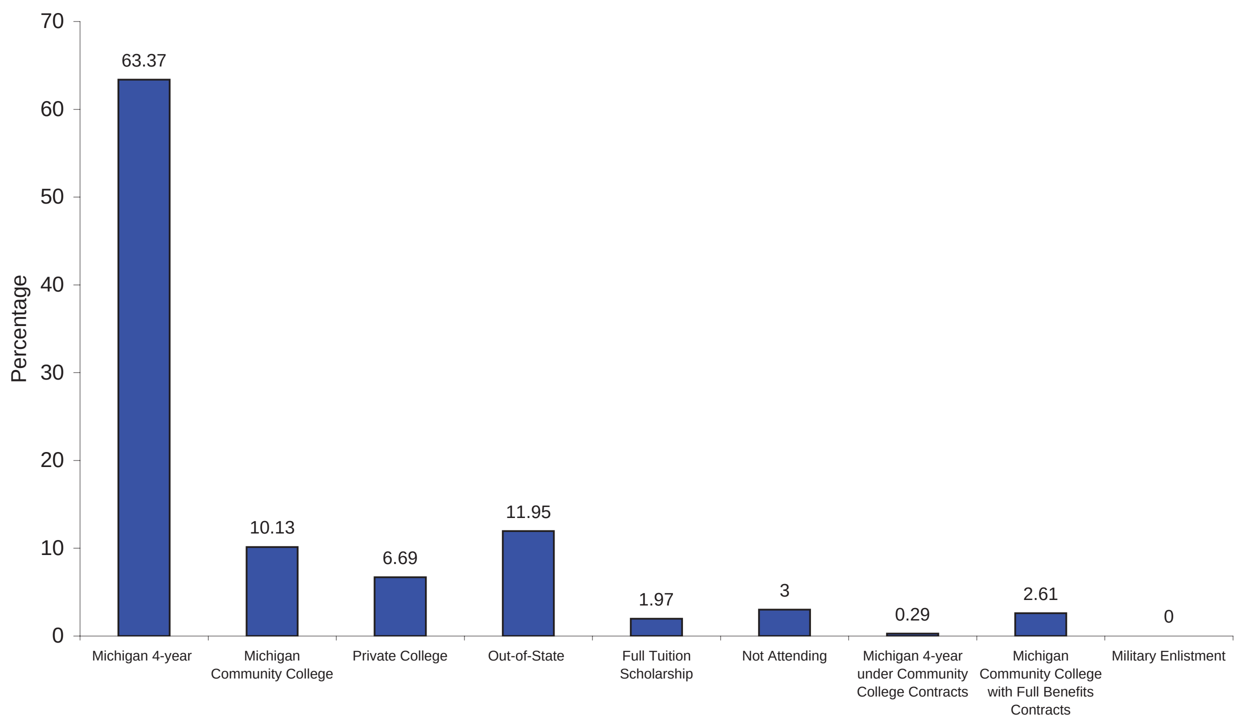
Contracts by Academic Year Beneficiary is Expected to Attend College

(as of September 30, 2007)



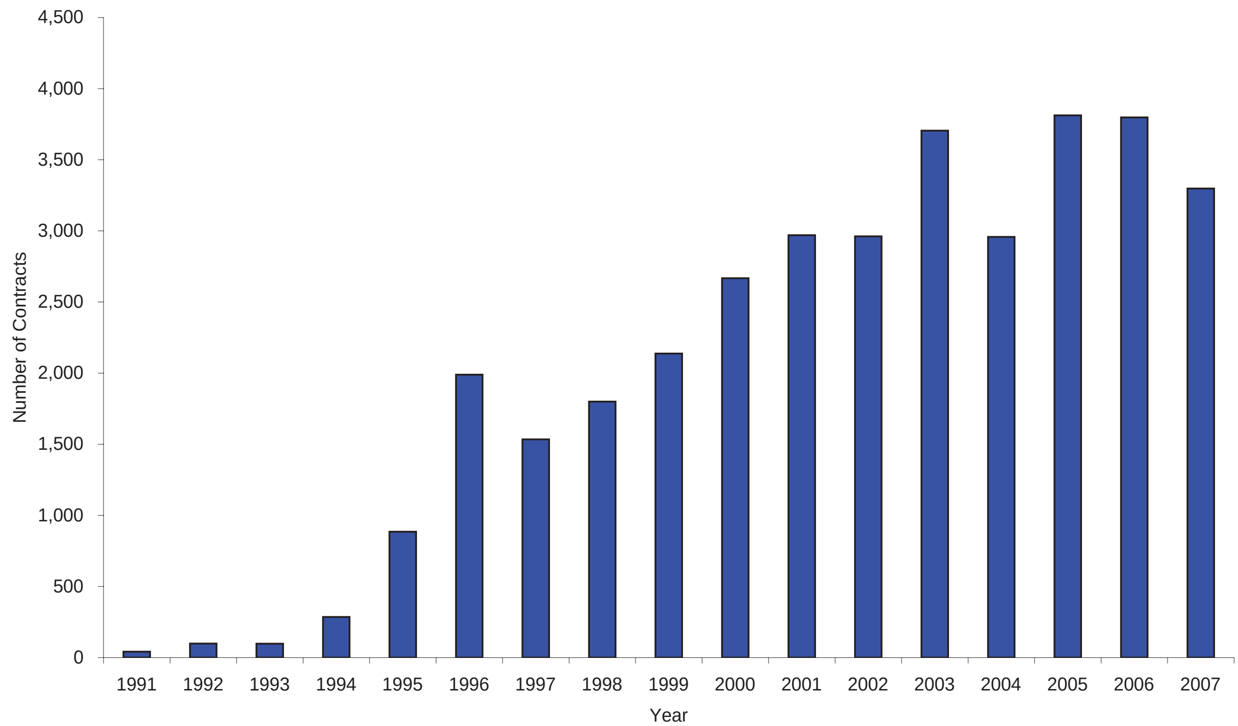
Contracts in Payment Status

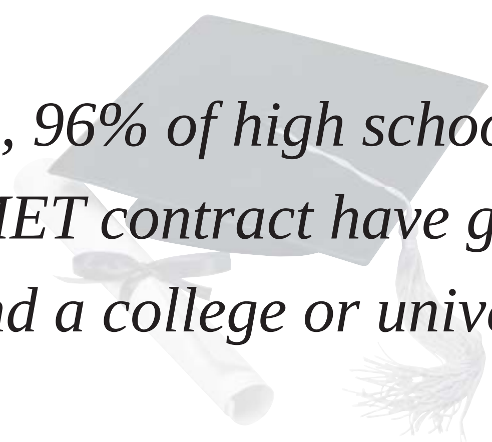
(as of September 30, 2007)



Contracts Paid in Full

(as of September 30, 2007)





Since 1988, 96% of high school graduates with a MET contract have gone on to attend a college or university.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One North Wacker
Chicago, IL 60606
Telephone (312) 298-2000
Facsimile (312) 298-2001

December 27, 2007

Mr. Robert J. Kleine
Chairman of the Board of Directors
Michigan Education Trust
Department of Treasury
P. O. Box 30198
Lansing, Michigan 48909

Dear Mr. Kleine:

PricewaterhouseCoopers LLP (PwC) in conjunction with Richard M. Kaye & Associates has performed an actuarial valuation of Plan D (MET II) of the Michigan Education Trust (MET or the Trust), at the request of the Trust as of September 30, 2007. The valuation is based on data furnished by MET regarding the contracts in force as of September 30, 2007; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, 2005, 2006, and 2007 enrollments.

We have determined that as of September 30, 2007, based on the aforementioned data and assumptions, the market value of Plan D assets was less than the actuarial present value of Plan D benefits by $11,818,573.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,

Michael Mielzynski

Michael Mielzynski, FCAS, MAAA
Manager
PricewaterhouseCoopers LLP

Richard M. Kaye

Richard M. Kaye
Fellow of the Society of Actuaries, CPA
Richard M. Kaye & Associates

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

Mr. Robert J. Kleine, Chair
Board of Directors
and
Ms. Robin R. Lott, Executive Director
Michigan Education Trust
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine and Ms. Lott:

We have audited the statement of net assets (deficit); the statement of revenues, expenses, and change in net assets (deficit); and the statement of cash flows of the Michigan Education Trust Plan D, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2007 and September 30, 2006. These financial statements are the responsibility of the Michigan Education Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Michigan Education Trust Plan D and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2007 and September 30, 2006 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plan D as of September 30, 2007 and September 30, 2006 and the changes in financial position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2008 on our consideration of the Michigan Education Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
February 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plan D for the fiscal years ended September 30, 2007 and September 30, 2006. MET is an Internal Revenue Code Section 529 qualified tuition program and is a discretely presented component unit of the State of Michigan, administratively located within the Department of Treasury. MET's management is responsible for the financial statements, notes to the financial statements, and this discussion.

Using the Financial Report

This financial report includes the report of independent auditors, management's discussion and analysis, the basic financial statements, and notes to the financial statements. The financial statements are interrelated and represent the financial status of MET.

The statement of net assets (deficit) includes the assets, liabilities, and net assets (deficit) at the end of the fiscal year. The statement of revenues, expenses, and changes in net assets (deficit) presents the revenues earned and expenses incurred during the fiscal year. The statement of cash flows presents information related to cash inflows and outflows summarized by operating and investing activities.

Financial Analysis of MET Plan D

The MET Board of Directors approves an annual budget and the investment portfolio allocation. The Bureau of Investments, Department of Treasury, under the direction of MET management, is responsible for short-term and long-term investment of MET funds. The MET portfolio for Plan D may be invested up to 70% in equities with the remainder invested in short-term investments, U.S. government securities, and corporate bonds.

MET funds are invested to coincide with the students' expected years of high school graduation. After students activate their contracts, colleges and universities submit invoices to MET every semester for tuition and mandatory fees. In 2006, the MET Board approved an amendment allowing students 15 years from the expected year of high school graduation to completely use MET contract benefits. Before that change, students had 9 years to use MET contract benefits.

Annually, the actuary determines the actuarial soundness of each MET plan. Key factors used in the soundness analysis are tuition increases (short-term and long-term), investment performance, and college selection by students and purchasers.
MET Plan D received 3,273 new contracts and $47.7 million in prepaid tuition amounts during fiscal year 2006-07. In fiscal year 2005-06, MET received 3,338 new contracts and $52 million in prepaid tuition amounts. In fiscal year 2004-05, MET received 3,396 new contracts and $43 million in prepaid tuition amounts.

Comparison of Current Year and Prior Year Results

Condensed Financial Information
From the Statement of Net Assets (Deficit)
As of September 30
(In Thousands)

	2007	2006	2005
Current assets	$ 48,648	$ 43,241	$ 49,510
Noncurrent assets	560,251	443,713	352,568
Total assets	$ 608,899	$ 486,954	$ 402,078
Current liabilities	$ 16,656	$ 11,561	$ 7,281
Noncurrent liabilities	604,062	520,486	439,133
Total liabilities	$ 620,718	$ 532,048	$ 446,415
Net assets (deficit) - Unrestricted	$ (11,819)	$ (45,094)	$ (44,337)
Total net assets (deficit)	$ (11,819)	$ (45,094)	$ (44,337)

Total net assets increased by $33.3 million in fiscal year 2006-07 and decreased by $0.8 million in fiscal year 2005-06. The net assets increased primarily because of the increase in fair value of assets.

Current assets increased by $5.4 million in fiscal year 2006-07 primarily because of the increase in cash and cash equivalents and an increase in tuition contracts receivable. Current assets decreased by $6.3 million in fiscal year 2005-06 primarily because of the decrease in cash and cash equivalents. The decrease resulted when some investments matured and the proceeds were reinvested immediately in the long-term portfolio.

Total assets increased by $121.9 million in fiscal year 2006-07 and by $84.9 million in fiscal year 2005-06. These increases reflect an increase in new contract prepaid tuition amounts received in fiscal year 2006-07 and in fiscal year 2005-06, which included lump-sum and monthly purchase contracts and increases in the fair value of investments. For both fiscal years, the MET Plan D target portfolio was 30% invested in short-term investments, U.S. government securities, and corporate bonds and 70% invested in equities. The actual portfolio was 30.59% fixed income investments and 65.43% equity.

Total liabilities increased by $88.7 million in fiscal year 2006-07 and by $85.6 million in fiscal year 2005-06. Tuition benefits payable increases reflect the changes in the actuarial present value of the future tuition benefits obligation and increases for new contracts issued. Changes in the present value of the future tuition benefits obligation include differences between actual experience and the actuarial assumptions utilized, and any changes in actuarial assumptions. The MET Board increased the discount rate applied to expected future cash flows to determine present value from 7.35% in fiscal year 2005-06 to 7.5% in fiscal year 2006-07.

Current and noncurrent tuition benefits payable increased to reflect the increase in lump-sum and monthly purchase contracts received and the actuarial present value of future tuition benefits obligations.

Condensed Financial Information
From the Statement of Revenues, Expenses, and
Changes in Net Assets (Deficit)
Fiscal Years Ended September 30
(In Thousands)

	2007	2006	2005
Operating revenues			
Interest and dividends income	$ 12,456	$ 10,122	$ 8,534
Net realized and unrealized appreciation (depreciation) in the fair value of investments	44,394	18,020	6,928
Other miscellaneous income	96	110	108
Total operating revenues	$ 56,946	$ 28,251	$ 15,570
Operating expenses			
Salaries and other administrative expenses	$ 1,655	$ 1,482	$ 1,285
Tuition benefit expense	22,016	27,526	22,760
Total operating expenses	$ 23,671	$ 29,008	$ 24,044
Operating income (loss)	$ 33,275	$ (757)	$ (8,474)
Increase (Decrease) in net assets	$ 33,275	$ (757)	$ (8,474)
Net assets (deficit) - Beginning of fiscal year	(45,094)	(44,337)	(35,863)
Net assets (deficit) - End of fiscal year	$ (11,819)	$ (45,094)	$ (44,337)

Net realized and unrealized appreciation (depreciation) in the fair value of investments increased by $26.4 million in fiscal year 2006-07 primarily because of an increase in the fair value of investments in equities during the fiscal year. The increase of $11.1 million in fiscal year 2005-06 was primarily because of an increase in the fair value of investments in equities during the fiscal year.

Tuition benefit expenses decreased by $5.5 million in fiscal year 2006-07 and increased by $4.8 million in fiscal year 2005-06 because of the actuarially determined tuition benefits obligation. The primary reason for the changes relates to updating the discount rate used by the actuary to calculate the expected future cash flow in the tuition benefits obligation.

The deficit in **net assets - end of fiscal year** decreased by $33.3 million in fiscal year 2006-07 and increased by $0.8 million in fiscal year 2005-06. The decrease and increase in both fiscal years resulted from the overall comparison of the market value of assets compared to the present value of the future tuition benefit obligation. Positive performance in the market on investments have resulted in improvements in eliminating the net deficit.

Condensed Financial Information
From the Statement of Cash Flows
Fiscal Years Ended September 30
(In Thousands)

	2007	2006	2005
Net cash provided (used) by:			
Operating activities	$ 57,905	$ 65,677	$ 60,891
Investing activities	(56,879)	(72,292)	(86,170)
Net cash provided (used) - All activities	$ 1,025	$ (6,614)	$ (25,279)
Cash and cash equivalents - Beginning of fiscal year	25,964	32,579	57,857
Cash and cash equivalents - End of fiscal year	$ 26,990	$ 25,964	$ 32,579

Cash provided by operating activities decreased by $7.8 million in fiscal year 2006-07 primarily because of a decrease in contract enrollment from fiscal year 2005-06. The increase of $4.8 million in fiscal year 2005-06 was primarily because of an increase in contract enrollment from fiscal year 2004-05.

Cash used by investing activities decreased by $15.4 million in fiscal year 2006-07 and decreased by $13.9 million in fiscal year 2005-06 because of the decreased amount of cash available for investing purposes.

The amount of cash available for additional investments is affected by the number of new contracts, interest and dividend earnings, and contract payments to colleges.

Factors Impacting Future Periods

It is expected that Michigan public universities will adopt higher tuition increases next year if State appropriated funds decrease.

MET enrollment for 2006 was held from September 1, 2005 through August 31, 2006. The first 2007 enrollment period was October 1, 2006 through January 31, 2007. The second 2007 enrollment period was April 1, 2007 through July 31, 2007. The enrollment period for 2008 is from September 1, 2007 through August 31, 2008. New enrollments will increase cash, future tuition benefits payable, and the asset base of MET Plan D.

As stated in the actuary's report, MET Plan D is 98.1% funded and is expected to pay benefits through 2025 even if no new contracts are issued. The MET Board of Directors reviews asset allocation and investment performance on a quarterly basis. At the beginning of fiscal year 2005-06, the MET Board changed the long-term investment portfolio strategy to address the unfunded liability issue. The new MET Plan D target portfolio for investment is now 30% in fixed income securities (short-term investments, U.S. government securities, and corporate bonds) and 70% in equities.

MICHIGAN EDUCATION TRUST PLAN D

Statement of Net Assets (Deficit)

As of September 30

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$ 26,989,823	$ 25,964,477
Tuition contracts receivable (Note 4)	19,929,699	15,531,557
Amounts due from MET Program	25	
Interest and dividends receivable	1,728,356	1,744,510
Total current assets	$ 48,647,903	$ 43,240,545
Noncurrent assets:		
Investments (Note 3)	505,054,895	403,749,093
Tuition contracts receivable (Note 4)	55,196,329	39,964,041
Total assets	$ 608,899,127	$ 486,953,679
LIABILITIES		
Current liabilities:		
Amounts due to MET Program (Plans B and C)	$ 1,655,695	$ 1,561,054
Tuition benefits payable (Note 5)	15,000,000	10,000,000
Total current liabilities	$ 16,655,695	$ 11,561,054
Noncurrent liabilities:		
Tuition benefits payable (Note 5)	604,062,030	520,486,479
Total liabilities	$ 620,717,725	$ 532,047,533
NET ASSETS		
Net assets (deficit) - Restricted	$ (11,818,598)	$ (45,093,854)
Total net assets (deficit)	$ (11,818,598)	$ (45,093,854)

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST PLAN D

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Fiscal Years Ended September 30

	2007	2006
OPERATING REVENUES	$ 12,455,906	$ 10,121,542
Interest and dividends income		
Net realized and unrealized appreciation	44,394,073	18,020,022
in the fair value of investments	96,052	109,853
Other miscellaneous income	$ 56,946,031	$ 28,251,418
Total operating revenues		
OPERATING EXPENSES	$ 1,655,030	$ 1,482,496
Salaries and other administrative expenses	22,015,745	27,525,790
Tuition benefit expenses	$ 23,670,775	$ 29,008,286
Total operating expenses		
Operating income (loss)	$ 33,275,256	$ (756,868)
Increase (Decrease) in net assets	$ 33,275,256	$ (756,868)
Net assets (deficit) - Beginning of fiscal year	(45,093,854)	(44,336,986)
Net assets (deficit) - End of fiscal year	$ (11,818,598)	$ (45,093,854)

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST PLAN D

Statement of Cash Flows

Fiscal Years Ended September 30

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Contract receipts	$ 62,559,289	$ 66,911,804
Interest and dividends received	12,439,751	10,089,375
Contract payments	(15,629,887)	(10,230,902)
Administrative and other expenses paid	(1,560,390)	(1,202,927)
Application and other fees collected	96,052	109,853
Net cash provided by operating activities	$ 57,904,815	$ 65,677,204
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	$ (59,376,502)	$ (87,310,638)
Proceeds from sale and maturities of investment securities	2,497,033	15,019,105
Net cash used in investing activities	$ (56,879,469)	$ (72,291,533)
Net cash provided (used) - All activities	$ 1,025,346	$ (6,614,329)
Cash and cash equivalents - Beginning of fiscal year	25,964,477	32,578,806
Cash and cash equivalents - End of fiscal year	$ 26,989,823	$ 25,964,477
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ 33,275,256	$ (756,868)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Realized and unrealized (gains) losses	(44,394,073)	(18,020,022)
Changes in assets and liabilities:		
Tuition contracts receivable	(19,630,430)	(1,146,641)
Interest and dividends receivable	(16,154)	(32,167)
Amounts due to MET Program (Plans B and C)	94,665	279,569
Tuition benefits payable	88,575,551	85,353,333
Net cash provided by operating activities	$ 57,904,815	$ 65,677,204

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Basis of Presentation and Reporting Entity

a. Basis of Presentation

The financial statements of the Michigan Education Trust (MET) Plan D have been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units.

b. Reporting Entity

MET was created under Act 316, P.A. 1986 (Sections 390.1421 - 390.1444 of the *Michigan Compiled Laws*) to operate a prepaid college tuition program. MET is governed by a 9-member Board of Directors that consists of 1 ex-officio member (the State Treasurer, acting as chairperson) and 8 public members who are appointed by the Governor with the advice and consent of the Senate. MET is administratively located within the Department of Treasury. The State Treasurer, as MET's agent, may not commingle cash and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan and is reported as such in the *State of Michigan Comprehensive Annual Financial Report*. The accompanying financial statements present only MET Plan D. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows of the State of Michigan or its component units in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units.

Act 316, P.A. 1986, empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which provides that, in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased. MET offers a full benefits contract, a limited benefits contract, and a community college contract. MET's property, income, and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

As of September 30, 2007, there have been 15 enrollment periods over 14 years for MET. The 1988, 1989, and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, 2005, 2006, and 2007 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B and C enrollments. This report covers the Plan D enrollments. A separate financial report and actuarial valuation of Plans B and C enrollments are available from the MET office at P.O. Box 30198, Lansing, Michigan 48909.

Note 2 Summary of Significant Accounting Policies

a. Measurement Focus and Basis of Accounting

The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting as provided by accounting principles generally accepted in the United States of America as applicable to governmental units. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Tuition benefit expenses represent accretion of the tuition benefits obligation (see Note 5).

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MET follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

b. Assets, Liabilities, and Net Assets

Cash and Cash Equivalents: Cash and cash equivalents reported on the statement of net assets include deposits with financial institutions and short-term investments with original maturities of less than three months used for cash management rather than investing activities.

Investments: MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. Act 316, P.A. 1986, authorizes the MET Board of Directors to invest MET's assets in any instrument, obligation, security, or property that it considers to be appropriate. The Act also authorizes the pooling of MET's investments with investments of the State, such as the pension funds, for investment purposes.

Investments are carried at fair value (see Note 3).

Tuition Contracts Receivable: The present value of the future monthly purchase contract payments is recorded as a current and noncurrent asset of MET. In fiscal year 2006-07, the discount rate applied to expected future cash flows to determine present value is 7.50%. In fiscal year 2005-06, the discount rate was 7.35%.

Liabilities: The actuarial present value of the future tuition benefits obligation is recorded as a current and noncurrent liability of MET (see Note 5).

Net Assets (Deficit): MET's net assets represent the investment appreciation and the investment revenue in excess of (or less than) the actuarial present value of the future tuition benefits obligation and expenses (see Note 5). Positive net assets are restricted because of the contractual obligations MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. Negative net assets are unrestricted. The enabling legislation for MET is Act 316, P.A. 1986. Section 17 of the Act indicates that the assets of the trust shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in the Act and shall not be loaned or otherwise transferred or used by the State for any purpose other than the purposes of the Act.

Note 3 Deposits and Investments

a. General Information

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, policies and practices with respect to custodial credit risk, foreign currency risk, interest rate risk, credit risk, and concentration of credit risk are discussed in the following paragraphs.

b. Deposits

(1) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MET will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. MET does not have a policy for custodial credit risk for deposits.

At the end of fiscal year 2006-07, the carrying amount of MET's deposits for Plan D and the amount reflected in the accounts of the banks was $6,089,923. At the end of fiscal year 2005-06, the carrying amount of MET's deposits for Plan D and the amount reflected in the accounts of the banks was $2,900,982. The September 30, 2007 and September 30, 2006 balances were covered by federal depository insurance or collateral held with MET's agent in MET's name and, therefore, are not exposed to custodial credit risk.

(2) Foreign Currency Risk

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of a deposit. As of September 30, 2007 and September 30, 2006, MET had no foreign deposits.

c. Investments

(1) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MET does not have a policy to restrict interest rate risk for long-term investments.

The following table shows the fair value of investments for Plan D by investment type and in total (in millions) at September 30, 2007:

	Fair Value	Investment Maturities: Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	$ 20.9	$ 20.9	$	$	$
U.S. Treasury strips	9.5	2.4	7.1		
U.S. agencies - backed	1.3				1.3
U.S. agencies - sponsored	94.8	19.9	7.5	51.6	15.8
Corporate bonds and notes	55.3	1.7	29.5	14.2	9.9
*Mutual funds	344.2				
Total investments	$ 526.0	$ 44.9	$ 44.1	$ 65.8	$ 27.0
Less investments reported as "cash equivalents" on statement of net assets	(20.9)				
Total investments	$ 505.1				
As Reported on the Statement of Net Assets					
Noncurrent restricted investments	$ 505.1				
Total investments	$ 505.1				

*Mutual funds have no fixed income or duration and, therefore, are not segmented for time.

The following table shows the fair value of investments for Plan D by investment type and in total (in millions) at September 30, 2006:

	Fair Value	Investment Maturities: Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	$ 23.1	$ 23.1	$	$	$
U.S. Treasury strips	11.1	2.1	9.0		
U.S. agencies - backed	1.6				1.6
U.S. agencies - sponsored	93.0		27.1	50.3	15.6
Corporate bonds and notes	54.3		30.3	14.1	9.9
*Mutual funds	243.7				
Total investments	$ 426.8	$ 25.2	$ 66.4	$ 64.4	$ 27.0
Less investments reported as "cash equivalents" on statement of net assets	(23.1)				
Total investments	$ 403.7				
As Reported on the Statement of Net Assets					
Noncurrent restricted investments	$ 403.7				
Total investments	$ 403.7				

*Mutual funds have no fixed income or duration and, therefore, are not segmented for time.

(2) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MET limits investments in commercial paper, at the time of purchase, to the top two ratings issued by two national rating services: ratings of A-1 and A-2 from Standard & Poor's and ratings of P-1 and P-2 from Moody's Investors Service. MET's policy also limits investments in corporate bonds and mutual bond funds, at the time of purchase, to the top four ratings of the two rating services: AAA, AA, A, and BBB from Standard & Poor's and Aaa, Aa, A, and Baa from Moody's Investors Service. As of September 30, 2007, the fair value and credit quality ratings of investments were as follows:

		Credit Quality Rating	
Investment	Fair Value	Standard & Poor's	Moody's Investors Service
Commercial paper	$ 20,899,900	A-1	P-2
CSX Transportation	1,708,291	A-	A2
Anheuser Busch	2,700,975	A	A2
Burlington Northern	1,249,564	A	Aa2
Cargill Inc.	4,862,915	A	A2
General Electric Capital Corp.	17,976,185	AAA	Aaa
Pfizer Inc.	2,327,505	AAA	Aa1
Seariver Maritime	19,403,303	AAA	Aaa
Precision Castparts	5,034,206	BBB+	Baa2
Federal Home Loan Mortgage Corp.	9,962,770	AAA	Aaa
Federal Farm Credit Banks	4,948,345	AAA	Aaa
Federal Home Loan Banks	79,891,952	AAA	Aaa
Government National Mortgage Association	1,302,217	Backed	Backed
United States Treasury	9,533,676	Backed	Backed
The Vanguard Group	344,152,991	Not rated	Not rated
Total fair value	$ 525,954,795		

As of September 30, 2006, the fair value and credit quality ratings of investments were as follows:

		Credit Quality Rating	
Investment	Fair Value	Standard & Poor's	Moody's Investors Service
Commercial paper	$ 23,091,507	Not Rated	Not Rated
CSX Transportation	1,759,113	A	A1
Anheuser Busch	2,754,132	A+	A1
Burlington Northern	1,259,232	A+	Aa2
Cargill Inc.	4,887,875	A+	A2
General Electric Capital Corp.	17,800,930	AAA	Aaa
Pfizer Inc.	2,364,145	AAA	Aaa
Seariver Maritime	18,513,056	AAA	Aaa
Precision Castparts	4,950,397	BBB	Baa2
Federal Home Loan Mortgage Corp.	9,858,480	AAA	Aaa
Federal Farm Credit Banks	4,877,258	AAA	Aaa
Federal Home Loan Banks	78,284,878	AAA	Aaa
Government National Mortgage Association	1,583,875	Backed	Backed
United States Treasury	11,160,490	Backed	Backed
The Vanguard Group	243,695,232	Not rated	Not rated
Total fair value	$ 426,840,600		

(3) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, MET will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. MET's investments are registered in its name and, therefore, are not subject to custodial credit risk. MET does not have an investment policy for custodial credit risk.

(4) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of MET's investments with a single issuer. MET does not have a policy to limit concentration of credit risk. At September 30, 2007, MET had the following investments that represented 5% or more of total investments:

		Credit Quality Rating	
Investment	Fair Value	Standard & Poor's	Moody's Investors Service
Federal Home Loan Banks	$79,891,952	AAA	Aaa

At September 30, 2006, MET had the following investments that represented 5% or more of total investments:

		Credit Quality Rating	
Investment	Fair Value	Standard & Poor's	Moody's Investors Service
Federal Home Loan Banks	$78,284,878	AAA	Aaa

(5) Foreign Currency Risk

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the fair value of investments. As of September 30, 2007 and September 30, 2006, MET had no foreign investments.

Note 4 Tuition Contracts Receivable

The following table summarizes tuition contracts receivable for monthly purchase contracts as of September 30:

	2007	2006
Tuition contracts receivable	$ 75,126,028	$ 55,495,598
Present value discount	(19,929,699)	(15,531,557)
Net tuition contracts receivable	$ 55,196,329	$ 39,964,041

Note 5 Tuition Benefits Payable and Net Assets (Deficit)

The standardized measurement of the total tuition benefits obligation of MET is the actuarial present value of the future tuition benefits obligation. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and termination of MET contracts. The following table shows the total tuition benefits obligations of MET as of September 30:

	2007	2006
Actuarially determined net value of assets	$ 607,243,457	$ 485,392,625
Present value of total tuition benefits obligation	619,062,030	530,486,479
Net value of assets in excess of tuition benefits obligation	$ (11,818,573)	$ (45,093,854)
Net value of assets as a percentage of total tuition benefits obligation	98.1%	91.5%

The deficit in net assets is a direct result of the future tuition benefits obligation exceeding the value of assets (unfunded tuition benefit liability). The tuition benefits obligation is calculated from future assumptions and actual tuition rates and the expected and actual selection of higher education institutions beneficiaries attend.

Differences between future assumptions and actual investment returns and tuition increases will affect the net assets or unfunded tuition benefit liability.

The most important assumptions used in the actuarial valuations include the following:

(1) The discount rate applied to expected future cash flows to determine present value was 7.50% for fiscal year 2006-07 and 7.35% for fiscal year 2005-06. This discount rate approximates the expected investment yield over the lifetime of the present tuition benefit contracts.

(2) For fiscal year 2006-07, the projected tuition increase was 7.30% compounded annually for all future years. The MET Board of Directors considered the relationship of tuition increases to the consumer price index in determining the tuition increase assumption of 7.30%. The assumption was changed from the fiscal year 2005-06 assumptions.

(3) There was no tax effect from federal income tax.

(4) MET will pay 110% of the MET weighted average tuition in benefits and refunds.

Presented below are the key assumptions used in the actuarial valuations for Plan D:

	Fiscal Years				
	2006-07	2005-06	2004-05	2003-04	2002-03
Tuition increase	7.30%	7.30%	7.00%	7.00%	7.00%
Tuition increase - long-term	7.30%	7.30%	7.30%	7.30%	7.30%
Present value discount rate	7.50%	7.35%	7.25%	7.25%	8.10%

The following summarizes the tuition benefits payable as of and for the fiscal years ended September 30, 2007 and September 30, 2006:

Balance at October 1, 2005	$ 445,133,146
Tuition expense	95,586,069
Payments	(10,232,736)
Balance at September 30, 2006	$ 530,486,479
Tuition expense	104,205,463
Payments	(15,629,912)
Balance at September 30, 2007	$ 619,062,030

The amounts due within one year for the fiscal years ended September 30, 2007 and September 30, 2006 are $15,000,000 and $10,000,000, respectively. The actuarial assumptions described in this note have a significant impact on the tuition benefit liability. Actual results may differ from the assumptions utilized. Tuition expense is recognized each year and reflects the increases in the present value of the tuition benefits payable.

Note 6 Tax Status

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan; thus, the investment income realized by MET is not currently subject to federal income tax.

Distributions made in excess of contributions (whether to the refund designee or the beneficiary or to a college on behalf of the beneficiary) are taxable income to the refund designee or the beneficiary. After January 1, 2002, these excess distributions are no longer subject to federal income tax if used for qualified higher education expenses. The federal Pension Protection Act enacted in August 2006 provides permanent tax exemption for Internal Revenue Code Section 529 qualified tuition programs.

On August 20, 1996, the Small Business Job Protection Act of 1996 (known as the "1996 Tax Act") was signed into law. The 1996 Tax Act included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified tuition programs." A qualified tuition program is generally exempt from income tax but is subject to unrelated business income tax. MET has no unrelated business income.

In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling, which confirms that MET meets the requirements for exemption from federal income tax as a state qualified tuition program described in Section 529 of the Internal Revenue Code.

Note 7 Risk Management

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Management and Budget.

Note 8 Pension Plans and Other Postemployment Benefits

MET employees are State classified employees who are covered by the State Employees' Retirement System Defined Benefit or Defined Contribution Plans. Detail and data regarding the Plans' descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the Plans' detailed financial reports. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The cost of retiree health care and other benefits is allocated by the Office of Retirement Services and funded on a pay-as-you-go basis.

MET was billed and paid an average 21.0% and 26.8% of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2006-07 and 2005-06, respectively. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Management and Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

TESTIMONIALS

"MET has worked so well, we are excited about the benefits our son has received at both Michigan community college and a four year university. MET has helped in planning our future too, because his college was paid in advance."

Maryann Ochab, Purchaser

"The MET program provides one of the best means to assure that the gift of excellent education for my grandchild will live long after I do."

Charles R. Fricke, Purchaser

"We thought our boys would have to do two years at a community college. But thanks to MET, my three boys are able to attend a four-year university. We could not have done it without MET."

Doug Sutika, Purchaser

Michigan Department of Treasury
2775 (Rev. 3-07)

Contract Number(s)

Michigan Education Trust Change of Address

It is important that we have correct addresses and phone numbers. Please notify us when a **permanent address** change is made**.** This will enable us to mail the appropriate individual important program information such as tax information used for income tax purposes. The MET contract is a legal document; therefore, any changes to the contract must be made in writing to the MET office and mailed (or faxed) to the address listed below. Either the Purchaser, Beneficiary or Appointee must sign this form. If change of address applies to more than one Beneficiary (student), please copy this form and submit a separate form for each Beneficiary (student).

This change of address applies to (check all that apply):	
☐ Purchaser ☐ Beneficiary (student) ☐ Appointee	
Name	E-mail Address
New Address	Daytime Telephone ( )
City, State, ZIP Code	

The Purchaser's signature is required to change Purchaser address. Purchaser may also sign to change address for an Appointee and a Beneficiary under 18 years of age.	
Purchaser Signature	Date

The Beneficiary must be 18 years of age and can only change his/her address.	
Beneficiary Signature	Date

The Appointee's signature is required to change Appointee's address. Appointee may also sign to change address for a Beneficiary under 18 years of age.	
Appointee Signature	Date

MAIL TO:
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